



## CABINET

Tuesday 2 February 2021

### FREEPORT EAST SUBMISSION

#### EXECUTIVE SUMMARY

1. In February 2020 HMG launched the Freeports initiative aimed at boosting economic growth by creating special economic zones around ports which would provide an array business incentives. This policy is designed to take advantage of the UK's new economic freedoms following Brexit, contribute to the 'levelling up' agenda and support the country's economic recovery from the Covid downturn. The recently launched Freeports Prospectus set out the bidding criteria and set 5 February as the deadline for submissions.
2. Freeport East, a partnership of Hutchison Ports (operators of Felixstowe and Harwich ports), the upper and lower tier Councils covering Felixstowe and Harwich and the LEPs covering the same geography was established to develop a bid to secure Freeport status for a zone encompassing the ports of Felixstowe and Harwich. This bid focuses on this cluster's global trade connections, intermodal connections with the Midlands and North, strong links to the net zero energy generation/ use, innovation via links to BT's Adastral Park and academia, regeneration to address coastal and urban deprivation and complementary programmes to promote inclusive growth.
3. The key areas of economic activity within Freeports will be based at the Tax and Customs sites where tax, planning and business incentives apply. Each Freeport can propose up to three of these sites and for Freeport East the chosen sites include Felixstowe Port's Logistics Park, Bathside Bay within Harwich International Port's demise and Gateway 14 owned by Mid Suffolk DC. These sites will be the main focus for economic growth; however Freeport status will induce further growth within the surrounding area inside and outside of the Freeport.
4. This paper is seeking Cabinet approval for the Freeport on the basis that it will directly contribute to the Council's Strategic Plan objectives of enabling economic growth and in light of the Covid downturn such growth is an even greater priority. Freeport status will also strengthen our current competitive advantage within the ports and logistics sector as well as strengthening existing and emerging sectors in low/ zero carbon energy and not least our ambitions around establishing a hydrogen economy within the district.

Is the report Open or Exempt?	Open
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<b>Wards Affected:</b>	Eastern Felixstowe, Western Felixstowe, Woodbridge, Kesgrave, Martlesham and Purdis Farm, Rushmere St. Andrew, Deben, Melton, Carlford & Fynn Valley, Wickham Market, Rendlesham & Orford, Framlingham, Orwell & Villages
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<b>Cabinet Member:</b>	Councillor Craig Rivett Deputy Leader & Cabinet Member with responsibility for Economic Development
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## 1 INTRODUCTION

- 1.1 In February 2020 HM Government published their Freeports consultation document. The document states that the Freeports initiative will be the cornerstone of the Government's plan to level up opportunity across the country. The overriding objective of Freeports is to boost trade, jobs and investment through streamlining regulations, speeding up planning processes and accelerating development and housing delivery in and around Freeports. This policy is also a response to the UK's departure from the EU and more latterly part of the national economic recovery plan following the Covid 19 economic shock.
- 1.2 The Government aims to create 10 Freeports across the UK, however if more than 10 compelling proposals are received this could be higher. The model being developed could work for rail, sea and airports. Measures to make Freeports attractive to domestic and international investors will include:
- Tariff flexibility
  - Simpler customs processes
  - Tax measures to incentivise investment
  - Planning reforms
  - Additional funding for infrastructure improvements
- 1.3 Freeports are secure customs zones located at ports where business can be carried out inside a country's land border but where different customs rules apply. They can reduce administrative burdens and tariff controls, provide relief from duties and import taxes and ease tax and planning regulations. Typically, goods brought into a Freeport do not attract a requirement to pay duties until they leave the Freeport and enter the domestic market. No duty at all is payable if they are re-exported. The Freeports prospectus, published in December 2020, sets out a UK Freeport model which would include multiple customs zones located within or away from a port to maximise flexibility in addition, Special Economic Zones designated over or around the customs zones would be created to maximise business investment in the Freeport.
- 1.4 The Freeports prospectus sets out in more detail, following consultation, how Freeports would operate as well as setting out the bidding process for submitting an application to become a Freeport. The government's key objectives for Freeports are set out below:
- Become national hubs for global trade and investment.
  - Promote regeneration and job creation.
  - Create hotbeds for innovation.
- 1.5 Within a Freeport there can be up to three Tax Sites and three Customs Sites. The tax sites, which can be up to 200ha each, will be areas where the following benefits will apply:
- Stamp Duty Land Tax Relief
  - Enhanced Structures and Buildings Allowances
  - Enhanced Capital Allowances
  - Employer National Insurance Contributions Relief
  - Business Rates Relief
  - Local retention of business rates

- Permitted development rights

1.6 The Customs Sites offer the following benefits to businesses located within them: duty deferral, duty inversion on finished goods exiting the Freeport attract a lower tariff than their component parts, duty exemptions on goods imported into the Freeport, suspension of import VAT on good entering the Freeport and the authorisation to use simplified import procedures.

1.7 In terms of the overall geography of the Freeport these designated sites must be within a 45km boundary (see diagram at appendix 1) along with the primary customs site i.e. the port.

## **2 FREEPORT EAST**

2.1 Since the launch of the consultation in February partners across Suffolk and Essex have been working in partnership to develop a Freeport proposal that would focus on the ports of Felixstowe and Harwich, both owned and operated by Hutchison Ports. This partnership includes the following organisations:

- Hutchison Ports
- Harwich Haven Authority
- New Anglia LEP
- South East LEP
- East Suffolk Council
- Tendring District Council
- Essex County Council
- Suffolk County Council
- Haven Gateway Partnership

It was agreed by the partnership that the Freeport bid would be named Freeport East, reflecting its location and the associated branding has been developed by Hutchison's in-house branding team.

2.2 The decision to apply for Freeport status has been driven by the significant potential economic growth it could enable. Partners such as Hutchison view this from a commercial growth/ competitiveness perspective whereas the local authorities and LEPs are keen to exploit the regional economic growth potential. This economic growth potential could be significant and would be driven by:

- Direct employment/ business creation and income generation
- Export growth and diversification
- Foreign Direct Investment
- Foreign exchange earnings
- Government revenues
- Supply chain development
- Technology transfer
- Regional development and increased competitiveness

- 2.3 In addition, Freeports will have the opportunity to bid into a £175m fund of seed capital to support the development of the Freeport as well as a Freeport Innovation Fund. As part of this development funding government wants to see Freeport contribute to the decarbonisation agenda and achieve net zero status by 2050.
- 2.4 In terms of the proposed outer boundary of the Freeport, it is geographically centred around the two ports of Felixstowe and Harwich. This represents a dual port freeport model. The two ports are owned and operated by the same port operator – Hutchison Ports and given the geographic proximity of the two ports, common ownership and consistent operating models and environments – a dual node port proposition will enable advantage to be taken of economies of scale in operation, governance, connectivity, trade related dynamics and local/regional industry value chains.
- 2.5 With the two ports sitting at the centre of the 45km geography, the zone naturally extends into the communities of East Suffolk, Tendring (especially around Clacton and Jaywick) and Ipswich. The Tendring and Ipswich areas contain communities with significant deprivation-related characteristics. Tackling economic deprivation and contributing to the ‘levelling up’ agenda are part of HMG’s key objectives for establishing Freeports. This geography represents a natural economic catchment area around the two ports with an overall population of 726,000 and a labour market catchment of approximately 431,000 working age residents. The geography is characterised by extensive port operations, associated landside activity and locally relevant supply chains and value chain activity related to logistics, and processing.
- 2.6 The Felixstowe/ Harwich ports cluster has a number of USPs which make its bid for Freeport status particularly strong. This includes its global and regional connectivity with over 40% of all the UK’s container traffic passing through the Port of Felixstowe, it has unrivalled international connections, particularly with Asia, strong intermodal connectivity to the Midlands Engine and Northern Powerhouse areas thereby supporting the ‘levelling up agenda’ in these areas. The bid also performs strongly against other national objectives such as technology and clean energy. The PoF is currently trialling a pilot 5G network, has strong R&D links with BT, Adastral Park and Cambridge and Essex Universities, furthermore there are strong links with Sizewell C, the offshore wind sector and the emerging hydrogen economy.
- 2.7 The prospectus requires that all bids for Freeport status should be submitted by 5 February 2021. This represents a challenging timeline and as such the Freeport East partnership agreed to appoint consultants, WSP, to support the development of the bid. This work has now progressed to the drafting stage (see Appendix B) and the key elements of the bid such as the location of the Tax and Customs Sites have now been agreed. The view was taken by the partnership that to derive maximum economic value from these designations the Tax and Customs Sites should be one and the same. Therefore, three combined Tax/ Customs sites have been agreed and these are:
- Port of Felixstowe Logistics Park (owned by Hutchison Ports)
  - Port of Harwich Bathside Bay (owned by Hutchison Ports)
  - Gateway 14 (currently an Enterprise Zone and owned by Mid Suffolk DC)

- 2.8 The rationale for choosing these sites is that they are compact and within close proximity to the ports. Furthermore, two of the sites (Felixstowe Logistics Park and Gateway 14) are prepared for development with planning consent in place and therefore able to progress quickly and accommodate additional economic activity, thereby realising tax and business rate benefits within the first five-year period and demonstrating good return on public investment. They are also in strategically important locations and Freeport status would provide the stimulus and catalyst for additional development, new economic activity and job creation. The sites have proven positive market characteristics and attractiveness due to a combination of locations, proximity to the ports and connecting infrastructure. Their risk profile is low given existing development and operations and therefore development can move at pace, enabling realisation of benefits – tariff-related and business rates – and wider economic and regeneration benefits within the first five-year window.
- 2.9 For the bid to progress government require that it has the full support of the local authorities in which the proposed Freeport is based. This is due to the business rate (see Finance section) and planning implications. Furthermore, Freeports represent a key regional economic growth initiative and therefore the support of Councils, who are key players in driving local economic growth is sought.
- 2.10 The Freeport East submission meets the government’s objectives for establishing Freeports in then following ways:
- **UK’s Trading Gateway to the World**
    - Freeport East has major port infrastructure accounting for a major part of the UK’s trade with the rest of the world
    - Freeport status provides a basis for strengthening this position and accelerating growth
    - Ability to draw in Foreign Direct Investment from various locations and embed quickly in regional value chains
  - **Innovation Freeport**
    - A strong innovation eco-system that can act as a springboard for economic growth and diversification – taking full advantage of existing strengths around 5G infrastructure, links with BT Adastral Park and links to zero carbon energy
    - Freeport status will enable a faster pace of innovation, dissemination and take up through incentivising high-value investment
    - A major opportunity exists to drive forward innovation and new firm formation in renewable energy – with the freeport zone being a prime location for the emerging hydrogen economy and offshore wind
  - **Local Regeneration**
    - Significant deprivation persists in coastal and inner urban areas and average incomes are low across the sub-region
    - Freeport status will expand and deepen a range of higher-value industry and sectoral activities, providing greater accessibility to higher income jobs.
    - Complementary programmes will be developed to provide greater access to new jobs and to upskill the existing workforce thereby embracing inclusive growth
  - **Regional Levelling Up**
    - The Freeport East zone already supports high-value, globally competitive industry sectors across the Midlands region.

- Freeport status will allow the zone to develop incentivized and targeted mechanisms for promoting further high-value growth across the central regions of the UK, through diversifying and deepening sectoral value chains, enabling greater sophistication in supply chains and by facilitating further innovation
- The economic and regenerative impacts of Freeport East will be felt widely across central parts of the UK.

- 2.11 The Freeport East bid will also meet all of the government's key objectives by complementing an array of existing local and regional economic growth strategies and initiatives and building on the local strengths of the surrounding area. Freeport East will benefit from drawing on the knowledge and expertise of several authorities and partnerships at the local level, who share the common goal of wanting to exploit existing trade connections and capabilities at Felixstowe and Harwich International Port.
- 2.12 The East of England is home to major maritime assets that can be harnessed to drive long-term sustainable growth in the region. Felixstowe is the UK's largest and busiest container port, handling 42% of all UK container trade and along with Harwich International Port offer regular RoRo short-sea ferry crossings that connect the UK with mainland Europe. There are also very few ports other than Port of Felixstowe with approach channels of sufficient depth to accommodate the largest and most efficient container ships. The East of England also sits at the heart of the world's largest market for offshore wind, and Harwich International Port is the home to the purpose built £10m Operations and Maintenance Facility of Galloper Offshore 353MW Wind Farm, supporting 60 jobs.
- 2.13 A fundamental capability of Freeport East will be its ability to harness local clean energy from offshore and other carbon-free sources. In doing so, it could serve as a centre for the development and testing of innovative technologies and clean-fuel applications such as hydrogen and battery technology. Freeport East's access to these sustainable energy sources is unrivalled in the UK, and there is continuing market appetite and political ambition both nationally and locally to further the development of offshore wind. For example, the Prime Minister recently announced a revised target of 40GW of offshore wind by 2030. This commitment formed part of the first stage outlined within the Prime Minister's ten-point plan, and almost quadrupling capacity to 40GW can only be facilitated by the continued expansion of offshore operations in the East of England. The government has also recently announced its intention to create port side manufacturing hubs for offshore energy, and Freeport East is primed to be focal point of this national initiative, which would bring much needed regeneration to the local area.

### **3 HOW DOES THIS RELATE TO THE EAST SUFFOLK STRATEGIC PLAN?**

- 3.1 The Freeport East proposal supports three themes within ESC's Strategic Plan – Enabling Economic Growth, Caring for Our Environment and Remaining Financially Sustainable. In terms of enabling economic growth the proposal will directly support the achievement of all the theme priorities:
- Building the right environment
  - Attracting inward investment
  - Maximise and grow our USPs
  - Business partnerships
  - Supporting the delivery of infrastructure

- 3.2 In terms of the environment theme the proposal is heavily based on growing the existing and emerging renewable energy sectors of offshore wind and hydrogen. The proposal will also support the financial theme through generating increased business rates income within and outside of the Freeports area some of which will be retained to encourage further economic growth.
- 3.3 The Freeports proposal will generate significant economic growth and provide employment opportunities to the ES communities. There is an accepted and strong link between employment and good mental health outcomes and therefore combined with the right support to access these new roles this will support good mental and physical health and wellbeing. The proposal will be complemented with ongoing skills development interventions and in particular programmes focussed on the young and those who are NEET, thereby supporting the inclusive growth agenda.

#### **4 FINANCIAL AND GOVERNANCE IMPLICATIONS**

- 4.1 The Freeport proposal will have financial implications for ESC since the business rates payable at the proposed ES tax sites i.e. Felixstowe Logistics Park will not be paid by business but instead by HMG. Business rate revenue will be apportioned based on a bespoke hybrid model. Under this model a portion of the total income generated will be earmarked for reinvestment within the tax/ custom site area; a portion will be retained by the local authority within which the tax/ custom site falls; and a portion will go into a pot to be reinvested across the wider freeport area. The hybrid model aims to provide a means for improving and enhancing tax/customs sites, while ensuring that the benefits of freeport status are distributed evenly across the area. The percentage breakdown of income apportionment between the different parties is yet to be agreed.
- 4.2 A two-tier governance arrangement, comprising a Supervisory Board and a Management Board is proposed for Freeport East. This would include a Supervisory Board which will be responsible for the strategic direction of Freeport East development and for monitoring and holding to account the Management Board for the effective delivery of the interventions and strategy and for receiving assurance about the effective management of the physical and fiscal security aspects of Freeport East. It will ensure that appropriate mechanisms are in place for the application and management of public funding through an accountable body, such as a County Council, which will hold all public money.
- 4.3 The Management Board will be responsible for the day-to-day operation of Freeport East and the discharge of its obligations regarding security, crime prevention and for executing the strategy agreed by the Supervisory Board under delegated powers. It will be responsible for submitting regular reports to Government.
- 4.4 The Supervisory Board would be composed of a Chair, recruited through an open and transparent process and subject to the Nolan Principles of Public Life, the Chief Executive of Freeport East and seven non-executive directors. The non-executive members of Supervisory Board are nominated by the stakeholders based on their knowledge and experience and in the case of local authorities to provide democratic accountability. East Suffolk Council will have representation on both tiers of this proposed governance structure.

#### **5 OTHER KEY ISSUES**

- 5.1 This report has been prepared having taken into account the results of an Equality Impact Assessment. The assessment identified that the Freeport East bid would have a positive impact on the age protected characteristic due to the inclusive growth programme associated with the initiative. For all other protected characteristics the impact was neutral



## 6 CONSULTATION

- 6.1 The development of the Freeport East proposal has been undertaken in partnership with all relevant local authorities and LEPs. Furthermore, industry representation has been undertaken through Hutchison Ports and Harwich Haven Authority. Wider consultation has also taken place with a wide range of public and private sector organisations including business networks and academia within the Freeport area.

## 7 OTHER OPTIONS CONSIDERED

- 7.1 The other option was for the partnership not to submit a bid for Freeport status. This would have signalled a lack of ambition for the sub-regional economy which is at odds with the partnership's published economic objectives and risk the area missing out of significant economic growth opportunities.

## 8 REASON FOR RECOMMENDATION

- 8.1 Achieving Freeport status for the Felixstowe/ Harwich ports cluster will provide the opportunity for significant economic growth within the District which will build on the sub-region's already strong ports and logistics sector. Such growth in employment, business creation, supply chain, inward investment and support for associated clean energy sectors is completely in line with the Council's ambitions for economic growth as set out in its Strategic Plan and Economic Growth Plan.

### RECOMMENDATIONS

That the Freeport East submission be approved to achieve Freeport status recognising the significant economic growth opportunities this will provide to the District and the wider economic sub-region within which East Suffolk operates.

### APPENDICES

<b>Appendix A</b>	Overview of Freeport model
<b>Appendix B</b>	Draft Freeport East submission
<b>Appendix C</b>	Draft Freeport East governance structure

**BACKGROUND PAPERS:** None.